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February 20, 2007

AGENDA ITEM 6a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** 2007 Third Quarter Self-Funded Health Plans Financial Report
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. INTRODUCTION:**

This report is to provide the CalPERS Board of Administration (Board) with an update on the financial status for the four CalPERS self-funded Preferred Provider Organizations (PPOs) health plans for the calendar quarter ending September 30, 2007.

The on-going positive financial results for the program indicates that the rates approved by the Board for the 2007 plan year were sufficient to fund benefits and to maintain adequate reserves. The medical and pharmacy claims 12-month cost trend continues to show an overall steady decline for the third quarter of 2007.

V. ANALYSIS:

At the end of the third quarter of 2007, the overall combined loss ratio for the self-funded health plans was 97 percent (100 percent is break-even). This resulted in an overall underwriting gain of \$32.3 million between the four self-funded health plans. The third quarter produced better than expected results based upon the continuing lower-than-expected trend in the medical and pharmacy claims cost for all four self-funded health plans.

Assets above the actuarial reserve requirements for the third quarter 2007 were \$313 million. This increase was due to several factors, including better-than-expected claims cost trends, better rebates relating to the new pharmacy contract, and better investment returns.

The following attachments provide more detailed financial and trend information:

Attachment 1

This attachment displays summary results for the third quarter 2006 and 2007 as well as the prior two years. The two self-funded basic plans continue to show underwriting gains while the two self-funded Supplement to Medicare plans are showing either a small gain (PERS Choice Supplement to Medicare) or an underwriting loss (PERSCare Supplement to Medicare).

The most notable development is that the 12-month rolling trend for both medical and pharmacy is continuing to show low increases in health care cost for all four self-funded health plans, with pharmacy cost increases being close to zero.

Attachment 2

This attachment presents the per-member-per-month (PMPM) medical and pharmacy claims costs for five quarters beginning with the third quarter of 2006.

The year-to-year (comparing 3rd quarter 2006 to 3rd quarter 2007) medical PMPM costs show expected increases for all four self-funded health plans with PERSCare Basic plan expecting a low of 7.7 percent and PERSCare Supplement to Medicare plan at a high of 11.4 percent.

It should be noted that year-to-year (comparing 3rd quarter 2006 to 3rd quarter 2007) pharmacy claims are showing trends that are lower than expected. The PERS Choice basic plan shows an increase of 7.8 percent, while the other three self-funded health plans are showing increases of between .3 and 4.7 percent. Trends are claims cost only and do not include rebates.

Attachment 3

This attachment presents asset values, reserves and asset changes for the self-funded health plans.

As of September 30, 2007, total program assets (line 15) exceeded the actuarial reserve (line 17) by over \$313 million. The excess in assets less reserves increased by \$25 million over the second quarter, indicating that surplus reserves are being generated due to the lower-than-expected claims cost trends, better pharmacy rebates and better investment returns. Overall all four self-funded health plans' asset levels continue to be positive.

Attachment 4

This attachment highlights the relative strength of the assets compared to the actuarial reserve. The overall levels of the assets in the self-funded health plans remain positive and indicate that assets and reserves are adequate to cover program liabilities.

Attachment 5

This attachment shows the overall enrollment trends for the four self-funded health plans.

VI. STRATEGIC PLAN:

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

There is no cost associated with this item.

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Attachments

